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December 7, 2005

Law Enforcement Officers' & Firefighters' Plan 2 Retirement Board  
P.O. Box 40918  
Olympia, Washington 98504-0918

Re: Actuarial Review: Duty-Related Total Disability Benefits

Chairman Fox and Members of the Board:

There follow the results of our actuarial review of the LEOFF 2 contribution rate increases contained in the LEOFF 2 memo of November 30, 2005 of the Office of the State Actuary.

**Background**

Currently, members “disabled in the line of duty” can elect to receive either 150% of their contribution account or an annuity equal to the member’s accrued benefit with a 10% of final average salary minimum. The benefit improvements currently being considered would, for those duty disablements found to be “totally disabled”, increase the annuity to 70% of final average salary with an adjustment for L&I and Social Security Disability Benefits. The offset would limit total benefits from LEOFF 2, L&I, and Social Security to 100% of the members Final Average Pay.

The recommended contribution rate increases contained in the memo of the Office of the State Actuary are shown below.

Employee	0.02%
Employer	0.01%
<u>State</u>	<u>0.01%</u>
Total	0.04%

## **Results of Review**

### ***Assumptions***

Rates of disablement are based on experience of the Colorado Fire and Police Pension Association Death and Disability Fund, which provides benefits that are similar in design and administration to those being contemplated. In addition, it is based on the percentage of duty disablements under LEOFF 1, adjusted to reflect a higher percentage at the younger ages and a lower percentage at the higher ages. In addition, a number of assumptions have been made regarding the magnitude of offsets for those receiving L&I and Social Security Disability benefits. We agree that all of these assumptions are reasonable for pricing this benefit.

An important assumption in the pricing of this benefit is the assumption that all totally disabled duty disabilities will receive L&I benefits and that all totally disabled duty disabilities covered by Social Security will receive Social Security Disability Benefits. The definition of total disablement used for the total disability benefit is patterned after the definition in the Social Security Act and defines total disability as “unable to perform any substantial gainful activity due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months”, with substantial gainful activity defined similarly to the definition in the Social Security Act. The definition of total disability used by L&I in granting permanent or total disability benefits is (1) “an employee whose injury or illness results in permanent inability to work, based on medical and vocational reports” or (2) loss or paralysis of two limbs or blindness. Based on these definitions, the assumption regarding receipt of L&I and Social Security Disability benefits appears to be reasonable assumption. However, to the degree that in practice members receiving the proposed total disability benefit are not considered totally disabled for L&I purposes or, if covered by Social Security, for Social Security Disability benefit purposes, there will be an increase in costs.

### ***Retroactive Provisions***

As currently outlined, the improvement would not be retroactive. Should a retroactive provision be added, the contribution rate increases shown should be revised accordingly.

### ***Contribution Rates***

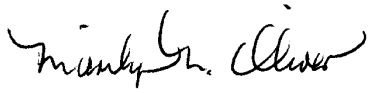
We independently calculated the increases in the LEOFF 2 Actuarial Present Value of Projected Benefits and the resulting contribution rate increases. Our results fell within a reasonable range of the State Actuary’s results.

### ***Conclusions***

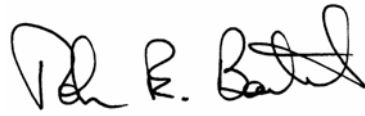
Contribution rates shown in the fiscal note of the Office of the State Actuary are appropriate for costing the contemplated benefit improvements.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marilyn M. Oliver".

Marilyn M. Oliver, F.S.A., M.A.A.A.  
Actuary and Principal  
Oliver Consulting  
Contractor

A handwritten signature in cursive script, appearing to read "John E. Bartel".

John E. Bartel, A.S.A., M.A.A.A.  
President  
Bartel Associates, LLC  
Peer Review

Cc.  
Steve Nelsen, Executive Director  
Matthew M. Smith, State Actuary